

OUTLOOK

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Excellent Investment Performance Boosts Benefits

SDRS Members to See Increase in Retirement Benefits

SDRS members will get more in retirement benefits than previously promised, thanks to a benefit improvement measure passed by the South Dakota Legislature in February. The measure increases the multipliers in the formulas used to calculate the amount of a member's benefit for service before July 1, 2008.

"Active SDRS members should use the new formula to get an accurate estimate of their retirement benefit, information that is essential for sound financial planning," explains Robert A. Wylie, SDRS' executive director and adminis-

trator. "For approximately 20,000 members who have already retired, the improvement will show up as bigger monthly benefit checks starting in July."

Formula Determines Increase in Each Member's Benefit

Codified in South Dakota law, the formula for calculating SDRS benefits consists of a member's years of credited service, final average compensation and a multiplier. The 2008 benefit improvement increases the multipliers for both Class A and Class B members and applies to service prior to July 1, 2008. How many dollars the

improvement adds to retirement checks will vary from member to member, as individual circumstances of employment impact each of the factors in the benefit formula.

Members can figure their new retirement benefit amount by using online calculators available at www.sdrs.sd.gov/news/?id=20. After July 1, 2008, the online calculator available at My SDRS — the secure, members-only area of the SDRS Web site (www.sdrs.sd.gov) — will incorporate the new benefit multipliers. This calculator automatically uploads members' >>

Timeline Shows Effect of SDRS' Wise Investment Strategy

History of Benefit Improvements

Thanks to the careful management and investment of members' contributions, SDRS has been able to increase the Class A benefit multiplier 10 times since the system's creation.*

1.0%

1974

1.1%

1982

1.3%

1986

1.3%

1991

1.3%/1.4%
(for applicable years)

1994

1997

1.475%
for service
prior to 1998/
1.3% for
service after

1998

1.55%
for service
prior to 2000/
1.3% for
service after

1999

2000

1.55%
for service
after 2002

2002

1.7%
for service
prior to 2008/
1.55% for
service after
2008

2008

*Class B multipliers experienced comparable increases in 1994, 1997, 1998, 1999, 2000 and 2008.

1.4% for service prior to 1997/
1.3% for service after

1.625% for service prior to 2002/
1.3% for service after

>> current information and allows them to estimate their benefits under different scenarios. Members desiring assistance may call SDRS at (605) 773-3731 or toll-free 1-888-605-SDRS.

The 2008 benefit improvement does not affect SDRS disability benefits, which are calculated using a separate formula. When members drawing SDRS disability checks reach normal retirement age, they will receive retirement benefits calculated with the improved multiplier, Wylie said.

Wise Management of Funds Makes Increase Possible

Excellent investment returns and careful management of the SDRS trust fund made possible the 2008 benefit improvement, the first in eight years.

The South Dakota Investment Council invests the money in the SDRS trust fund, which comprises members' and employers' contributions plus past earnings on those contributions. In years of higher investment returns, when

the rate of return exceeds expectations, the extra earnings are placed into the SDRS reserve. This reserve funds benefit improvements when feasible, and also provides a financial cushion to the system in years of low investment earnings.

"The SDRS Board of Trustees proposes benefit increases only when the reserve has enough funds to pay for them," Wylie says. "Since 2003 the rate of return on SDRS' investments surpassed expectations by more than six percent. This out-

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Multiplier x Final Compensation x Years of Service

Understanding the SDRS Benefit Formula

Class A Member Standard Formula

BEFORE the 2008 improvement:

1.625% x final average compensation x years of credited service before July 1, 2002

Plus

1.55% x final average compensation x years of credited service after July 1, 2002

AFTER the 2008 improvement:

1.7% x final average compensation x years of credited service before July 1, 2008

Plus

1.55% x final average compensation x years of credited service after July 1, 2008

Example

A member retired July 1, 2007, with 30 years of credited service and a final average compensation of \$40,000.

The member's monthly benefit WITHOUT the 2008 improvement:

$1.625\% \times \$40,000 \times 25 = \$16,250$

Plus

$1.55\% \times \$40,000 \times 5 = \$3,100$
equals a retirement benefit of \$19,350 per year, or \$1,612.50 per month

\$1,612.50 per month

The member's monthly benefit WITH the 2008 improvement:

$1.7\% \times \$40,000 \times 30 = \$20,400$
equals a retirement benefit of \$1,700 per month

\$1,700 per month

standing performance means we can improve benefits significantly and still maintain the stability and security of SDRS, even if tough economic times lie ahead."

Six other SDRS-related bills passed during the 2008 legislative session and were signed by Governor Rounds. For more details, visit SDRS' Web site: www.sdrs.sd.gov.

OUTLOOK



1-888-605-SDRS
www.sdrs.sd.gov

Benefit Improvement Receives Unanimous Support from Legislature

In January 2008, the SDRS Board of Trustees proposed the benefit formula improvement to the South Dakota Legislature. At each stage of the bill's movement through the legislative process, it received unanimous support from legislators.

- ✓ January 8: The benefit improvement measure, H.B. 1019, was first read in the House and referred to that body's Retirement Laws Committee, where it passed on January 15 by a vote of 5 to 0.
- ✓ January 17: The bill passed in the House by a vote of 65 to 0.
- ✓ January 22: The bill was first read in the Senate, then referred to the Senate Retirement Laws Committee. On January 25, it passed in a 5-0 vote.
- ✓ January 29: The bill passed in a 33-0 vote of the full Senate.
- ✓ February 6: Governor Mike Rounds signed the bill into law.

OUTLOOK *Interview* ... continued from page 4

vestment returns that are greater than the expected earnings of 7.75 percent. When earnings are above that target, we have dollars we can set aside in the trust fund. Most of that reserve is used to cover shortfalls in years when earnings fall below 7.75 percent. But when earnings are above the target long enough, we accrue enough dollars to pay for a benefit improvement.

OUTLOOK: *The most recent benefit improvement won't apply to years of credited service beyond 2008. Is that because we don't know if future investment performance will be above the 7.75 percent target?*

HOFMAN: That's right. We don't know when, or even if, earnings will exceed the target

amount and provide funds for extending a benefit improvement into the future.

OUTLOOK: *How will the 2008 benefit improvement work?*

HOFMAN: On July 1, the benefit formula multipliers for both Class A and Class B members will increase for all years of credited service through June 30, 2008. For example, the formula multiplier for Class A members will rise to 1.7 percent. For years of credited service after June 30, 2008, the Class A multiplier will return to 1.55 percent. If future investment performance is significantly better than 7.75 percent, the board could consider making a similar benefit improvement applicable to years following 2008.

OUTLOOK: *And if the returns are poor?*

HOFMAN: We'll use the system's reserves to make up the shortfall, then wait for better-than-expected earnings to rebuild the reserves and hopefully provide funds for another benefit improvement.

Creating a system that provides solid benefit improvements and yet remains exceptionally financially secure requires a high level of expertise on the part of the staff, a long-term perspective and a large dose of patience. I think it's remarkable that over the nearly 35 years of the system's existence, that rare combination of factors has always been present in SDRS. That's been an enormous advantage to our members. OUTLOOK



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"Now we have enough dollars to protect the system's financial stability ... plus we have the dollars to fund a benefit improvement. "



Ray Hofman

OUTLOOK Interview

SDRS will increase its retirement benefit formula for all members effective July 1, 2008. Ray Hofman, representing elected municipal officials on the SDRS Board of Trustees, discusses the factors that make a benefit increase possible.

OUTLOOK: *There hasn't been a retirement benefit increase in eight years. In the past, benefit improvements came more frequently. Why the big gap in time?*

HOFMAN: The first priority of the SDRS Board of Trustees is making

sure there are enough dollars in its trust fund to pay for all of the benefits already promised to members. When the stock market plummeted in 2002, a large part of the trust fund reserves were used to pay promised benefits. Because we had those reserves, SDRS remained fiscally sound throughout that difficult time, but it's taken a number of years to build the reserves back up. Now we have enough dollars to fund the benefit improvement and to protect the system's financial stability whenever there is a downturn in the market.

OUTLOOK: *Is the timing of benefit improvements based on technical inputs like actuarial data and computer modeling, or is there a human component of the decision?*

HOFMAN: The SDRS staff and our actuaries have developed numerical standards that give us indicators as to when we can prudently consider benefit improvements. But even when those standards are met and the indicators are positive, the decision to improve benefits isn't automatic; the information has to be examined in the context of the immediate and long-term investment climate. The decision to make a benefit improvement is the result of a process undertaken by the Board and the state Legislature.

OUTLOOK: *The question of investment climate and investment results comes up often when SDRS discusses benefit improvements. Why?*

HOFMAN: Benefit improvements are paid for exclusively with in-

... continued on page 3